

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Houghton County Road Commission	County Houghton
Fiscal Year End 9/30/06	Opinion Date 1/26/07	Date Audit Report Submitted to State 3-26-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

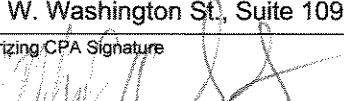
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	NO COMMENTS IN CURRENT YEAR		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC		Telephone Number 906-225-1166		
Street Address 102 W. Washington St., Suite 109		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 		Printed Name Michael Alan Grentz		License Number 1101027988

**Houghton County Road Commission
Component Unit Financial Statements
For the Year Ended September 30, 2006**

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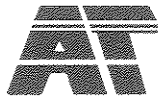
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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Houghton County Road Commission
PO BOX 269
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities and major fund of the Houghton County Road Commission a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Houghton County Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Houghton County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Houghton County Road Commission as of September 30, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007 on our consideration of the Houghton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of County Road Commissioners
Houghton County Road Commission

The Management's Discussion and Analysis, on pages 5 through 11 and budgetary comparison information on pages 29 and 30 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houghton County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 26, 2007

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of Houghton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

The Houghton County Road Commission is one of the most unique county road commissions in the State of Michigan due to their yearly budget being so dependent upon the severity of the winter season.

The Houghton County Road Commission routinely spends between 30% and 50% or more of their Michigan Transportation income on snow removal costs each year, the highest in the State of Michigan.

The highest cost of snow removal is due to five month long winters with up to 350 inches of snow and the extremely high cost of operating and maintaining a 10 million dollar fleet of specialized equipment needed to operate, not only the open county roads, but in the narrow 25 or 30 foot right-of-ways in the old mining era residential locations.

In addition to the operating costs associated with sophisticated snow removal equipment, the Houghton County Road Commission must annually place and clean up some 15,000 tons of abrasives and salt on their 835 mile county road system.

The winter maintenance activity typically may last up to 6 months or more, and is the top priority item in the development of an operating budget each year, with contract federal aid construction, routine maintenance and road commission financed construction following in order of priority.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

Overview of the Financial Statements

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 14. The fund financial statements begin on page 14 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 19%, or \$1,622,961, from \$8,672,612 to \$10,295,573 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, and charge or otherwise mandate payment of resources and include a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation; as such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets increased by \$231,297 during 2006.

The increase in restricted net assets occurred because there were limited equipment purchases of \$270,837 and equipment depreciation of \$569,669 which caused revenues to be more than expenses.

The investment in capital assets, net of related debt increased by \$1,391,664.

The investment in capital assets, net of related debt increased by \$1,391,664 this was primarily due to reporting infrastructure of \$2,122,430 for the year of 2006. The depreciation for the current year's infrastructure will be depreciated in the subsequent years.

Net assets as of year ended September 30, 2006 follows:

	2006	2005
Current and other assets	\$2,394,299	\$2,317,938
Capital assets	8,768,774	7,377,110
Total Assets	11,163,073	9,695,048
Long-term debt outstanding	514,374	689,066
Other liabilities	353,126	333,370
Total Liabilities	867,500	1,022,436
Net Assets:		
Invested in capital assets, net of		
Related debt	8,768,774	7,377,110
Restricted – operations	1,526,799	1,295,502
Total Net Assets	\$10,295,573	\$8,672,612

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2006 and 2005 follows:

	Governmental Activities – 2006	Governmental Activities – 2005
Program Revenue:		
License and Permits	\$16,722	\$16,193
Federal Grants	1,339,234	59,809
State Grants	4,297,815	4,282,781
Contributions From Local Units	59,394	376,908
Charges for Services	25,251	37,152
Investment Earnings	55,849	18,322
Reimbursements	94,601	77,971
General Revenue:		
Taxes	500,048	478,394
Gain on Equipment Disposal	6,882	3,500
Total Revenue	6,395,796	5,351,030
Expenses		
Public Works	4,772,835	4,560,508
Interest Expense	-	1,968
Total Expenses	4,772,835	4,562,476
Excess Before Transfers	1,622,961	788,554
Transfers In—Primary Government	-	-
Increase in Net Assets	1,622,961	\$788,554
Fund Balance – Beginning	8,672,648	7,884,094
Fund Balance – Ending	\$10,295,573	\$8,672,648

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the general operations fund increased \$251,053 as compared to an increase of \$376,987 in the fund balance for the year ended September 30, 2005. Total operating revenues were \$6,409,355, an increase of \$1,058,325 as compared to last year. Total expenditures were \$6,158,302, an increase of \$1,184,259 as compared to last year.

General operations fund increased due to limited equipment purchases and equipment depreciation, resulting in a net increase in general operations fund.

Operating revenues in 2005 did not include any STP or Federal "D" funds, while in 2006 there was \$872,000 in STP funds and \$368,000 in Federal "D" funds.

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The expenditure increase of \$210,359 was largely due to equipment purchases of \$270,837 in capital outlay in 2006 compared to \$35,219 in 2005.

A summary of changes in the Operating Fund is as follows:

	9/30/06 Operating Fund	9/30/05 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent
Revenues				
Taxes	\$500,048	\$478,394	\$21,654	5%
License & Permits	16,722	16,193	529	3
Federal Grants	1,339,234	59,809	1,279,425	2,139
State Grants	4,297,815	4,282,781	15,034	3
Contributions From Local Units	59,394	376,908	(317,514)	84
Charges for Services	25,251	37,152	(11,901)	32
Interest and Rents	55,849	18,322	37,527	205
Other Revenue	115,042	81,471	33,571	41
Total Revenues	<u>6,409,355</u>	<u>5,351,030</u>	<u>1,058,325</u>	<u>20</u>
Expenditures				
Public Works	6,470,693	5,615,795	(854,898)	15
Net Capital Outlay	(312,391)	(643,720)	(331,329)	51
Debt Service	-	1,968	1,968	100
Total Expenditures	<u>6,158,302</u>	<u>4,974,043</u>	<u>(1,184,259)</u>	<u>24</u>
Excess of Expenditures Over Revenues	<u>251,053</u>	<u>376,987</u>	<u>(125,934)</u>	<u>33</u>
Fund Balance—Beginning	1,628,872	1,251,885	376,987	30
Fund Balance--Ending	<u>\$1,879,925</u>	<u>\$1,628,872</u>	<u>\$251,053</u>	<u>15%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$691,000, lower than the original budget. The actual revenue recognized during 2006 was more than the final amended budget by \$98,355.

The final amended revenue budget was lower than the original budget due to a combination of additional STP projects and the reduction of the FFH16 funds that were removed from the budget as they were direct billed by the contractor to MDOT.

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The final amended expenditure budget for 2006 was \$325,000, lower than the original budget. The actual expenditures recognized during 2006 were less than the final amended budget by \$366,698.

The final amended expenditures budget was lower than the original budget due to decreased primary and local heavy maintenance.

The actual expenditures recognized during 2006 were less than the final amended budget due to construction billing overlapping and occurring in fiscal year 2007.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2006, the Road Commission had invested \$8,768,774 in capital assets. This amount represents a net increase (including additions and deductions) of \$747,937 or 9% as follows:

	2006	2005	Total Percentage Change 2006/2005
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 93,137	\$ 88,137	6%
Subtotal	93,137	88,137	6%
Capital Assets Being Depreciated			
Depletable Assets	102,093	102,093	0%
Buildings	1,394,767	1,355,217	3%
Equipment	8,478,604	8,465,495	1%
Infrastructure	7,953,448	5,831,018	36%
Subtotal	17,928,912	15,753,823	14%
Total Capital Assets	18,022,049	15,841,960	14%
Total Accumulated Depreciation	9,253,275	7,821,123	18%
Total Net Capital Assets	\$8,768,774	\$8,020,837	9%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,122,430. The infrastructure is financed through federal, state and local contributions.

During fiscal year 2006 the Road Commission Purchased \$5,000 in land, \$39,550 in building improvements, \$202,820 in new road equipment and \$23,467 in office equipment; with county road funds.

During fiscal year 2006 the Road Commission traded-in, sold and/or disposed of road equipment with a net book value of \$13,559 for \$20,441.

Debt

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

Houghton County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Economic Factors and Next Year's Budget

The Board of Houghton County Commissioners considers many factors when setting the fiscal year 2006 budget. One of the factors is economy. The Road Commission derives approximately 67% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated the Road Commission will receive modest increases in Michigan Transportation Fund revenues in 2007. However it was decided to use a more conservative figure of approximately the same Michigan Transportation Funds income as the previous year.

Fuel tax projected collections are provided by the State of Michigan.

Property taxes are very stable with slight increases due to new construction in the county.

The most difficult revenue to project are federal and state economic development monies which in many cases can be awarded by grant application during the year, and also can be very difficult to time revenues and expenditures because of outside contractor scheduling and performance work. These projects usually overlap in at least two fiscal years.

The Road Commission will be participating in the State of Michigan's "Jobs Today" program that will advance several construction projects that use STP and Federal "D" funds. This program will advance projects/funds in the Road Commission Transportation Improvement Plan from 2008 thru 2011 to be constructed in 2007 and 2008. This will cause a large increase in revenues from STP and Federal "D" funds for the fiscal years of 2007 and 2008 followed by a large decrease in subsequent years thru 2011.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Houghton County Road Commission's administrative offices at P.O. Box 269, Hancock, Michigan, 49930.

HOUGHTON COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS

September 30, 2006

ASSETS

Cash and Equivalents	\$ 1,323,530
Accounts Receivable:	
Property Taxes	-
Sundry Accounts	997
State Trunkline Maintenance	-
State - Other	-
Michigan Transpiration Fund	592,393
Due on County Road Agreements	-
Due From Primary Government	-
Inventories:	
Road Materials	198,954
Equipment, Parts and Materials	276,150
Prepaid Expenses	2,275
Capital Assets (Net of Accumulated Depreciation)	8,768,774
Total Assets	<u>11,163,073</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	193,535
Due to State of Michigan	-
Accrued Liabilities	26,656
Performance Bonds Payable	-
Non-Current Liabilities:	
Advances From State	294,183
Deferred Revenue	
Property Taxes	-
Township Road Bonds	-
Installment Purchase Agreements Payable - Due Within One Year	-
Installment Purchase Agreements Payable - Due in More Than One Year	-
Vested Employee Benefits Payable	353,126
Total Liabilities	<u>867,500</u>

NET ASSETS

Invested in Capital Assets - Net of Related Debt	8,768,774
Restricted for County Road	<u>1,526,799</u>
Total Net Assets	<u>\$ 10,295,573</u>

HOUGHTON COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Expenditures	
Primary Road Routine and Preventive Maintenance	\$ 1,778,037
Local Road Routine and Preventive Maintenance	2,071,541
State Trunkline Maintenance	47,388
Net Equipment Expense	89,607
Net Administrative Expense	356,502
Non-Road Project	-
Infrastructure Depreciation	410,004
Compensated Absences	19,756
Interest Expense	-
Total Program Expenses	<u>4,772,835</u>
Program Revenue	
Charges for Services	
Licenses and Permits	16,722
Charges for Services	25,251
Contributions from Local Units	59,394
Other Revenue	101,483
Operating Grants and Contributions	
Federal Sources	1,339,234
State Sources	4,297,815
Capital Grants and Contributions	
Federal Sources	-
State Sources	-
Contributions from Local Units	-
Total Program Revenues	<u>5,839,899</u>
Net Program Revenue	<u>1,067,064</u>
General Revenues	
Property Taxes	500,048
Interest and Rents	55,849
Transfers In	-
Total General Revenue and Transfer In	<u>555,897</u>
Change in Net Assets	<u>1,622,961</u>
Net Assets - Beginning of Year	8,672,612
Net Assets - End of Year	<u>\$ 10,295,573</u>

HOUGHTON COUNTY ROAD COMMISSION

BALANCE SHEET

SEPTEMBER 30, 2006

	Governmental Fund Type
	General Operating Fund
ASSETS	
Cash and Equivalents	\$ 1,323,530
Accounts Receivable:	
Michigan Transpiration Fund	592,393
Land Contract	-
Other Governmental Units	-
Due on County Road Agreements	-
Sundry Accounts	997
Inventories:	
Road Materials	198,954
Equipment, Parts and Materials	276,150
Prepaid Expenses	2,275
Total Assets	<u>\$ 2,394,299</u>
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts Payable	\$ 193,535
Contracts Payable	-
Accrued Liabilities	26,656
Due to State of Michigan	-
Advances	294,183
Escrow and Other	-
Total Liabilities	<u>514,374</u>
Fund Equities:	
Fund Balance - Unreserved and Undesignated	<u>1,879,925</u>
Total Fund Equities	<u>1,879,925</u>
Total Liabilities and Fund Equity	<u>\$ 2,394,299</u>

Houghton County Road Commission

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

September 30, 2006

Total Fund Balances for Governmental Funds		\$	1,879,925
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets	18,022,049	
Accumulated depreciation	<u>(9,253,275)</u>	
		8,768,774

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Compensated Absences	<u>353,126</u>	
		(353,126)

NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>10,295,573</u>
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HOUGHTON COUNTY ROAD COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Operating Fund
Revenues:	
Property Taxes	\$ 500,048
Licenses and Permits	16,722
Federal Sources	1,339,234
State Sources	4,297,815
Contributions from Local Units	59,394
Charges for Services	25,251
Interest and Rents	55,849
Other Revenue	115,042
Total Revenues	<u>6,409,355</u>
Expenditures	
Public Works	6,470,693
Capital Outlay	(312,391)
Debt Service	-
Total Expenditures	<u>6,158,302</u>
Excess of Revenues Over (Under) Expenditures	<u>251,053</u>
Other Financing Sources	
Transfers In - Primary Government	-
Note Proceeds	-
Total Other Financing Sources	<u>-</u>
Excess (Deficit) of Revenues and Other financing Sources Over (Under) Expenditures	<u>251,053</u>
Fund Balance - Beginning of Year	1,628,872
Fund Balance - End of Year	<u><u>\$ 1,879,925</u></u>

HOUGHTON COUNTY ROAD COMMISSION

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	251,053
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays and infrastructure as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense - building and equipment	(578,040)	
Depreciation expense - infrastructure	(410,004)	
Capital outlays - building and equipment	270,837	
Capital outlays - infrastructure	2,122,430	
Gain (loss) on disposal	<u>(13,559)</u>	1,391,664

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(19,756)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 1,622,961

Houghton County Road Commission

Notes to Financial Statements

September 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Houghton County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Houghton County Road Commission.

(1) Reporting Entity

The Houghton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Houghton County Road Commission, a discretely presented component unit of Houghton County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Houghton County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Road Commission has one major fund, the operating fund.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Taxes Receivable

The property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 2005 taxable valuation of the Houghton County Road Commission amounted to \$562,752,095 less \$201,215,274 for cities and villages, on which ad valorem taxes of 1.3583 mills were levied for the Road Commission for road construction purposes for a total of \$500,048.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2005 ad valorem tax is levied and collectible on December 1, 2005, it is the Road Commission's policy to recognize revenues from the current tax levy in the current year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Houghton County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing, the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified in the following categories:

The cash and investments are classified into the following categories:

Cash – Held with Road Commission – Bank Deposits	\$205,300
Cash – Held with County Treasurer – Bank Deposits	1,118,230
Total Cash	<u>\$1,323,530</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

Interest Rate Risk

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Houghton and would receive its proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission's deposits with financial institutions were \$205,300 and the bank balance was \$253,931. The bank balance is categorized as follows:

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

Amount insured by FDIC	\$100,000
Amount uninsured and uncollateralized	153,931
	<u>\$253,931</u>

The \$1,118,230 other cash balance is pooled with the County of Houghton funds and would receive a proportionate share of insurance.

NOTE D – DEFERRED COMPENSATION PLAN:

The Houghton County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Houghton County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Houghton County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Houghton County Road Commission for the current year was as follows:

	Beginning Balances 10/01/05	Additions	Deletions	Ending Balances 9/30/06
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 88,137	\$ 5,000	\$ -	\$ 93,137
Subtotal	<u>88,137</u>	<u>5,000</u>	<u>-</u>	<u>93,137</u>
Capital Assets Being Depreciated:				
Depletable Assets	102,093	-	-	102,093
Buildings	1,355,217	39,550	-	1,394,767
Road Equipment	8,130,763	202,820	213,179	8,120,404
Shop Equipment	211,043	-	-	211,043
Office Equipment	123,690	23,467	-	147,157
Infrastructure—Bridges	762,929	-	-	762,929
Infrastructure—Roads	5,068,089	2,122,430	-	7,190,519
Subtotal	<u>15,753,824</u>	<u>2,388,267</u>	<u>213,179</u>	<u>17,928,912</u>

NOTE E – CAPITAL ASSETS (Continued):

	Beginning Balances 10/01/05	Additions	Deletions	Ending Balances 9/30/06
Less Accumulated Depreciation:				
Depletable Assets	\$38,924	\$953	\$-	\$39,877
Buildings	679,745	44,016	-	723,761
Road Equipment	6,849,713	512,509	199,620	7,162,602
Shop Equipment	140,453	14,118	-	154,571
Office Equipment	112,454	6,444	-	118,898
Infrastructure—Bridges	44,352	15,259	-	59,611
Infrastructure—Roads	599,210	394,745	-	993,955
Subtotal	8,464,851	988,044	199,620	9,253,275
Net Capital Assets Being Depreciated	7,288,973	1,400,223	13,559	8,675,637
Total Net Capital Assets	\$7,377,110	\$1,405,223	\$ 13,559	\$8,768,774

Depreciation expense was charged to programs of the Houghton County Road Commission as follows:

Infrastructure:	
Primary	\$ 312,880
Local	97,124
Equipment Expense:	
Direct	512,509
Indirect	46,293
Operating	8,962
Administrative Expense:	
Inventory	953
Office Equipment	9,323
Total Depreciation Expense	<u>\$988,044</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Houghton County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all nonunion employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Houghton County Road Commission's competitive bargaining units and requires a contribution from the employees of 16.62% of gross wages for the County Road Commission.

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):

Annual Pension Costs – For year ended 2006, Houghton County Road Commission's annual pension cost of \$80,088 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30 follows:

	2003	2004	2005
Actuarial Value of Assets	\$2,439,095	\$2,598,835	\$2,593,845
Actuarial Accrued Liability (AAL)	2,873,598	3,255,374	3,494,787
Unfunded AAL (UAAL)	434,503	656,539	900,942
Funded Ratio	85%	80%	74%
Covered Payroll	395,083	281,910	320,611
UAAL as a Percentage of Covered Payroll	110%	233%	281%

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$62,646	100%	\$-
2004	79,991	100%	-
2005	60,425	100%	-

Defined Contribution Pension Plan

The Houghton County Road Commission provides pension benefits to all of its full-time union employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by union contract, the Houghton County Road Commission contributes a fixed amount per the union agreement, plus interest allocated to the employee's account, and employees are fully vested after 10 years of service.

The current year contribution was calculated based on \$65 per employee, for 40 employees, resulting in an employer contribution of \$120,575 and employee contributions of \$-0-.

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2006, the Federal aid received and expended by the Road Commission was \$872,000 for contracted projects and \$441,459 for negotiated projects. Contracted projects are defined as projects

NOTE G – FEDERAL GRANTS (Continued):

performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects. The schedule of federal awards for the Houghton County Road Commission is included in the Schedule of Federal Awards of County of Houghton, Michigan.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 2 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$8,177 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	Balance October 1, 2005	Additions (Reductions)	Balance September 30, 2006
Vested Employee Benefits:			
Vacation Benefits	\$ 36,398	\$ 5,101	\$ 41,499
Sick Leave Benefits	296,972	14,655	311,627
TOTAL	<u>\$ 333,370</u>	<u>\$ 19,756</u>	<u>\$ 353,126</u>

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Employees who anticipate the need for an extended vacation shall be allowed (on receiving approval from the County Engineer) to use up to two (2) weeks of the next year's vacation for such purpose, but not in the months of November, December, January, or February.

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 3/4 day, or 6 hours, for each completed month of employment. Sick leave may be accumulated to a maximum of 90 days. On an annual basis sick leave accruals over the 90 days are paid off at 100 percent for the first 5 days and 50 percent for any additional time accrued.

Three personal days are allowed each employee per calendar year. If the personal days are not used during the year they are added to the sick leave accruals for the year.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for all accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE J – COMMITMENTS AND CONTINGENCIES

Grants – The Houghton County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Houghton County Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Houghton County Road Commission at September 30, 2006.

Risk Management – The Houghton County Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Houghton County Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Houghton County Road Commission joined together with other Michigan Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Houghton County Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Houghton County Road Commission is unable to provide an estimate of the amounts of additional assessments.

Required Supplementary Information

Houghton County Road Commission
General Operating Fund
Statement of Revenues - Budget and Actual
For the Year Ended September 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes	\$ 436,000	\$ 490,000	\$ 500,048	\$ 10,048
Licenses and Permits	-	-	16,722	16,722
Federal Aid				
Surface Transportation Program	424,000	875,000	872,000	(3,000)
Economic Development "D" Funds	240,000	368,000	368,000	-
FEMA	1,500,000	100,000	99,234	(766)
State Aid				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	2,100,000	2,100,000	2,087,204	(12,796)
Primary Urban Road	250,000	250,000	202,635	(47,365)
Local Road	1,000,000	1,000,000	1,092,170	92,170
Local Urban Road	140,000	140,000	126,144	(13,856)
Snow Removal	560,000	612,000	612,020	20
Economic Development Fund:				
Forest Road "E" Funds	167,000	167,500	167,642	142
Contributions from Local Units				
Townships	50,000	60,000	53,493	(6,507)
Others	25,000	-	5,901	5,901
Charges for Service:				
Salvage sales	-	-	902	902
Other	-	-	24,349	24,349
Interest and Rents	-	-	55,849	55,849
Other:				
Reimbursements	100,000	105,000	94,601	(10,399)
Gain on Equipment Disposal(s)	-	33,500	20,441	(13,059)
Total Operating Revenue	<u>7,002,000</u>	<u>6,311,000</u>	<u>6,409,355</u>	<u>98,355</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>7,002,000</u>	<u>6,311,000</u>	<u>\$ 6,409,355</u>	<u>\$ 98,355</u>
Fund Balance - October 1, 2005	<u>1,628,872</u>	<u>1,628,872</u>		
Total Budget	<u>\$ 8,630,872</u>	<u>\$ 7,939,872</u>		

Houghton County Road Commission
General Operating Fund
Statement of Expenditures - Budget and Actual
For the Year Ended September 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Primary Roads:				
Construction	\$ -	\$ -	\$ -	\$ -
Preservation	2,755,000	1,825,000	1,816,781	8,219
Maintenance	1,760,000	1,780,000	1,778,037	1,963
Local Roads:				
Construction	-	-	-	-
Preservation	200,000	630,000	301,469	328,531
Maintenance	2,380,000	2,075,000	2,071,541	3,459
Primary Roads Structures:				
Construction	-	-	-	-
Preservation	-	-	-	-
Maintenance	-	-	-	-
Local Roads Structures:				
Construction	-	-	-	-
Preservation	5,000	5,000	4,180	820
Maintenance	-	-	-	-
State Trunkline Maintenance	-	50,000	47,388	2,612
Equipment Expense - Net	(100,000)	100,000	94,795	5,205
Direct			1,358,955	
Indirect			534,931	
Operating			367,371	
Less: Equipment Rentals			(2,166,462)	
Administrative Expense - Net	300,000	360,000	356,502	3,498
Administrative Expense			376,235	
Engineering Expense			-	
Less: Overhead			(18,390)	
Purchase Discounts			(1,343)	
Capital Outlay - Net	(450,000)	(300,000)	(312,391)	12,391
Capital Outlay			270,837	
Less: Depreciation Credits	-	-	(13,559)	-
Less: Equipment Retirements	-	-	(569,669)	-
Other	-	-	-	-
Debt Service				
Principal Payment	-	-	-	-
Interest Expense	-	-	-	-
TOTAL EXPENDITURES	6,850,000	6,525,000	\$ 6,158,302	\$ 366,698
FUND BALANCE - September 30, 2006	1,780,872	1,414,872		
Total Budget	\$ 8,630,872	\$ 7,939,872		

Other Supplemental Financial Information

Houghton County Road Commission
Analysis of Changes in Fund Balance
For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Revenues	\$ 3,852,630	\$ 2,449,171	\$ 107,554	\$ 6,409,355
Expenditures	<u>3,852,629</u>	<u>2,569,501</u>	<u>(263,828)</u>	<u>6,158,302</u>
Excess of Revenues Over (Under) Expenditures	<u>1</u>	<u>(120,330)</u>	<u>371,382</u>	<u>251,053</u>
Other Financing Sources (Uses)				
Interfund Transfers In (Out)	<u>(1)</u>	<u>120,330</u>	<u>(120,329)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(1)</u>	<u>120,330</u>	<u>(120,329)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>251,053</u>	<u>251,053</u>
Fund Balance - October 1	<u>-</u>	<u>-</u>	<u>1,628,872</u>	<u>1,628,872</u>
FUND BALANCE - SEPTEMBER 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,879,925</u>	<u>\$ 1,879,925</u>

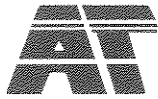
Houghton County Road Commission
Analysis of Revenues
For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Taxes	\$ 224,746	\$ 275,302	\$ -	\$ 500,048
Licenses and Permits	7,338	9,384	-	16,722
Federal Aid				
Surface Transportation Program	872,000	-	-	872,000
Economic Development "D" Funds	368,000	-	-	368,000
Other	73,459	25,775	-	99,234
State Aid				
Michigan Transportation Fund:				
Engineering	6,564	3,436	-	10,000
Primary Road	2,087,204	-	-	2,087,204
Primary Urban Road	202,635	-	-	202,635
Local Road	-	1,092,170	-	1,092,170
Local Urban Road	-	126,144	-	126,144
Snow Removal	-	612,020	-	612,020
Economic Development Fund:				
Forest Road "E" Funds	-	167,642	-	167,642
Contributions from Local Units				
Townships	-	53,493	-	53,493
Others	-	5,901	-	5,901
Charges for Service:				
Salvage sales	-	-	902	902
Other	10,684	13,665	-	24,349
Interest and Rents	-	-	55,849	55,849
Other:				
Reimbursements	-	64,239	30,362	94,601
Gain on Equipment Disposal(s)	-	-	20,441	20,441
Total Operating Revenue	<u>3,852,630</u>	<u>2,449,171</u>	<u>107,554</u>	<u>6,409,355</u>
Total Revenue and Other Financing Sources	<u>\$ 3,852,630</u>	<u>\$ 2,449,171</u>	<u>\$ 107,554</u>	<u>\$ 6,409,355</u>

Houghton County Road Commission
Analysis of Expenditures
For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Roads:				
Preservation	\$ 1,816,781	\$ -	\$ -	\$ 1,816,781
Maintenance	1,778,037	-	-	1,778,037
Local Roads:				
Preservation	-	301,469	-	301,469
Maintenance	-	2,071,541	-	2,071,541
Local Roads Structures:				
Preservation	-	4,180	-	4,180
State Trunkline Maintenance	-	-	47,388	47,388
Equipment Expense - Net	43,217	50,403	1,175	94,795
Administrative Expense - Net	214,594	141,908	-	356,502
Capital Outlay - Net	-	-	(312,391)	(312,391)
TOTAL EXPENDITURES	\$ 3,852,629	\$ 2,569,501	\$ (263,828)	\$ 6,158,302

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Houghton County Road Commission
PO BOX 269
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities and major fund of the Houghton County Road Commission, component units of the County of Houghton, Michigan as of and for the year ended September 30, 2006, which collectively comprise the Houghton County Road Commission's basic financial statements and have issued our report thereon dated January 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Houghton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houghton County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 26, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.

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GREEN BAY
MILWAUKEE

January 26, 2007

Houghton County Road Commission
PO BOX 269
Hancock, Michigan 49930

We have audited the financial statements of the Houghton County Road Commission, a component unit of the County of Houghton; Michigan for the year ended September 30, 2006, and have issued our report thereon dated January 26, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Houghton County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of the Houghton County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Houghton County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Houghton County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Houghton County Road Commission
Hancock, Michigan 49930

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Houghton County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Houghton County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Houghton County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Houghton County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Houghton County Road Commission Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLLC

Certified Public Accountants